

FINANCIAL STATEMENTS

PORTAGE LAKE DISTRICT LIBRARY

June 30, 2008

CONTENTS

INDEPENDENT AUDITORS' REPORT	3
Management's Discussion and Analysis	4
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Fund - Balance Sheet	8
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	9
Statement of Revenues, Expenditures, and Changes in Fund Balance	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	11
NOTES TO FINANCIAL STATEMENTS	12
REQUIRED SUPPLEMENTAL INFORMATION	
General Fund - Budgetary Comparison Schedule	16
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17
SCHEDULE OF FINDINGS AND RESPONSES	19
AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE	20
MANAGEMENT LETTER	22

JOSEPH M. DAAVETILA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931

December 19, 2008

To the Library Board
Portage Lake District Library
Houghton, Michigan

Independent Auditors' Report

We have audited the accompanying financial statements of the Portage Lake District Library, as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Portage Lake District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Portage Lake District Library as of June 30, 2008, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Joseph M Daavetila, PC

Certified Public Accountant

PORTAGE LAKE DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2008

The Management's Discussion and Analysis report of the Portage Lake District Library covers the library's financial performance during the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

Our financial status remained stable throughout the FY 2007-2008.
The Library revenue sources were as follows:

District Millage	\$430,824
Contributions	\$ 46,037
Other	\$ 71,368

Based on currently known facts, decisions or conditions, there is no reason to believe that the Library may experience a change in its financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status.

The remaining statements are fund financial statements, these statements tell how these services were financed in the short term as well as what remains for future spending.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Library as a whole using accounting methods used by private companies. The statement of net assets includes all of the Library's assets and liabilities. The statement of activities records all of the current years revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Library are reported as governmental fund activities.

FUND FINANCIAL STATEMENTS

The Fund financial statements provide information about the Library's General Fund, not the Library as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Library Board also may create them. Funds are established to account for funding or spending of specific financial resources and to show proper expenditures of those resources.

The Library has the following type of fund:

Governmental Fund: All of the Library's activities are included in the governmental fund category. This fund is presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Library's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Library's governmental fund is the General Fund.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

The Library's net assets for governmental activities increased by \$68,598 during the fiscal year ended June 30, 2008, totaling \$613,186.

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Current Assets	\$ 408,889	\$ 352,593
Non-current Assets	<u>257,966</u>	<u>270,270</u>
TOTAL ASSETS	<u>\$ 666,855</u>	<u>\$ 622,863</u>
Current Liabilities	\$ 53,669	\$ 78,275
Net Assets - Unrestricted	<u>613,186</u>	<u>544,588</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 666,855</u>	<u>\$ 622,863</u>
Program Revenues:		
Charges for Services	\$ 32,268	\$ 29,560
Operating Grants and Contributions	46,037	74,930
General Revenues:		
Property Taxes	430,824	404,549
Interest Income	6,995	6,028
Other Revenue	<u>32,105</u>	<u>30,594</u>
TOTAL REVENUE	<u>\$ 548,229</u>	<u>\$ 545,661</u>
Program Expenses:		
Culture - Library	\$ 479,631	\$ 443,198
Interest on Long-Term Debt	<u>-</u>	<u>4,118</u>
Total Expense	<u>\$ 479,631</u>	<u>\$ 447,316</u>
Change in Net Assets	<u>\$ 68,598</u>	<u>\$ 98,345</u>

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

The General Fund's fund balance increased by \$80,902 during the fiscal year ended June 30, 2008, totaling \$355,220. The activities of the general fund have remained constant, consisting of salaries and benefits, purchases of books and materials, utilities, building maintenance, and programs. The revenues collected to fund the activities increased due to an increase in taxable values in the district.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets - The Library spent \$9,750 on capital outlay expenditures this year.

Long-Term Debt - The Library has no long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The fiscal year covered in this audit was the third year of the Library's capital campaign. The campaign has been very successful thanks to the generosity of many donors.

CONTACTING ENTITY MANAGEMENT

This financial report is designed to provide taxpayers, creditors, investors and customers, with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have any questions concerning this report contact James Curtis, Library Director, Portage Lake District Library, 58 Huron Street, Houghton, Michigan 49931. Phone (906) 482-4570.

PORTAGE LAKE DISTRICT LIBRARY

STATEMENT OF NET ASSETS
As of June 30, 2008

	<u>Governmental Activities 2008</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash on hand	\$ 1,260
Cash in bank	326,653
Taxes receivable	37,421
Penal fines receivable	21,315
Pledges receivable	16,283
Other receivables	4,732
Prepaid expenses	<u>1,225</u>
Total Current Assets	<u>\$ 408,889</u>
<u>NON-CURRENT ASSETS</u>	
Capital assets	\$ 336,018
Less accumulated depreciation	(<u>78,052</u>)
Total Non-Current Assets	<u>\$ 257,966</u>
	<u><u>\$ 666,855</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	\$ 15,022
Accrued expense	22,364
Deferred revenue	<u>16,283</u>
Total Current Liabilities	<u>\$ 53,669</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 257,966
Unrestricted	<u>355,220</u>
Total Net Assets	<u>\$ 613,186</u>
	<u><u>\$ 666,855</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY

STATEMENT OF ACTIVITIES
Year ended June 30, 2008

	<u>Program Revenue</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:				
Governmental Activities:				
Culture - Library	\$ 479,631	\$ 32,268	\$ 46,037	(\$ 401,326)
General revenues:				
Property taxes				\$ 430,824
State aid				7,887
Penal fines				21,315
Interest				6,995
Miscellaneous				<u>2,903</u>
Total General Revenues				<u>\$ 469,924</u>
Change in net assets				68,598
Net assets, beginning of year				<u>544,588</u>
Net assets, end of year				<u><u>\$ 613,186</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY

GOVERNMENTAL FUND
BALANCE SHEET
As of June 30, 2008

	<u>General</u>
<u>ASSETS</u>	
Cash on hand	\$ 1,260
Cash in bank	326,653
Taxes receivable	37,421
Penal fines receivable	21,315
Pledges receivable	16,283
Other receivables	4,732
Prepaid expenses	<u>1,225</u>
	<u>\$ 408,889</u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>LIABILITIES</u>	
Accounts payable	\$ 15,022
Accrued expense	22,364
Deferred revenue	<u>16,283</u>
TOTAL LIABILITIES	\$ 53,669
<u>FUND EQUITY</u>	
Unreserved -	
Undesignated	<u>355,220</u>
	<u>\$ 408,889</u>

The accompanying notes to financial statements
are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
June 30, 2008

Total fund balances of governmental funds \$ 355,220

Amounts reported for governmental activities in the statement
of net assets are different because -

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental funds balance sheet:

Capital assets at cost	336,018
Accumulated depreciation	(<u>78,052</u>)
	<u>\$ 613,186</u>

The accompanying notes to financial statements
are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BALANCE SHEET

Year ended June 30, 2008

	<u>General</u>
<u>REVENUES</u>	
Property taxes	\$ 430,824
State aid	7,887
Charges for services	32,268
Penal fines	21,315
Interest	6,995
Contributions	46,037
Miscellaneous	<u>2,903</u>
TOTAL REVENUES	<u>\$ 548,229</u>
<u>EXPENDITURES</u>	
Culture - Library:	
Wages	\$ 203,929
Fringe benefits	54,578
Education and dues	3,682
Supplies	20,684
Books and materials	35,757
Utilities	29,017
Insurance	5,326
Professional services	28,329
Building rent	50,130
Repairs and maintenance	16,768
Miscellaneous	9,377
Capital outlay	<u>9,750</u>
TOTAL EXPENDITURES	<u>\$ 467,327</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ 80,902</u>
Fund balance, July 1	<u>\$ 274,318</u>
Fund balance, June 30	<u><u>\$ 355,220</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Net change in fund balances - Total Governmental Funds	\$ 80,902
Amounts reported for governmental activities in the Statement of Activities are different because -	
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation	(22,054)
Capital Outlay	<u>9,750</u>
Change in Net Assets of Governmental Activities	<u>\$ 68,598</u>

The accompanying notes to financial statements are an integral part of this statement.

PORTAGE LAKE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Portage Lake District Library, Houghton County, Michigan, conform to generally accepted accounting principles applicable to governmental units.

The Portage Lake District Library (the "Library") was established in 1974 pursuant to development of a plan by the City of Houghton and the Township of Portage and Public Act No. 164 of 1955, as amended by Public Act No. 32 of 1970. The District also currently includes the Township of Chassell.

The Library Board of Trustees consists of eight (8) members with three appointed by the Houghton City Council, three appointed by the Portage Township Board, and two appointed by the Chassell Township. The Library board of Trustees are given powers to maintain and operate a public library for the district. Library operations are financed substantially through property taxes levied by the City and Townships. The Library also provides services to Duncan Township through an agreement where the Library receives penal fines allocated to the Township by Houghton County.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity," the general purpose financial statements of the Library contain all the Library funds that are controlled by or dependent on the Library's executive or legislative branches.

The reporting entity is the Portage Lake District Library. The Library is governed by an appointed Library Board. As required by generally accepted accounting principles, these financial statements present the Library as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Library reports only one fund as follows:

The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Library. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments - Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Library. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. The taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Library 2007 tax roll millage rate was 2.0 mills.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$3,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Employees accumulate sick leave based on their actual hours worked times a pre-determined multiplier, to a maximum of 240 hours. Upon the death or retirement of any employee, accumulated sick/personal leave days shall be paid to the employee, (or in the event of death, the employee's estate) according to the following schedule:

- . after three years of employment, 1/4 of accumulated sick/personal leave
- . after five years of employment, 1/2 of accumulated sick/personal leave
- . after eight years of employment, 3/4 of accumulated sick/personal leave
- . after ten years of employment, all of accumulated sick/personal leave

Vacation pay is accumulated based on the actual hours worked times a pre-determined multiplier and cannot exceed two times the employee's annual entitlement.

Accumulated vacation and sick leave vested at June 30, 2008 was \$9,473.70.

Post-Employment Benefits

The Library provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B - BUDGETS AND BUDGETARY ACCOUNTING

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget is submitted to the Library Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Library board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Library Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Library Board during the fiscal year.

NOTE C - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreement; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE C - DEPOSITS AND INVESTMENTS (continued)

The Library Board has designated two banks for the deposit of Library Funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>\$ 326,653</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured	<u>\$ 328,031</u>
Uninsured and Uncollateralized	<u>-</u>
	<u>\$ 328,031</u>

The Library did not have any investments as of June 30, 2008.

NOTE D - CAPITAL ASSETS

Capital asset activity of the Library's Governmental activities for the current year was as follows:

	<u>Balance</u> <u>07-01-07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06-30-08</u>
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Buildings	15,000	-	-	15,000
Equipment and furnishings	<u>308,268</u>	<u>9,750</u>	<u>-</u>	<u>308,268</u>
Total	\$ 326,268	\$ 9,750	\$ -	\$ 336,018
Accumulated depreciation	<u>(55,998)</u>	<u>(22,054)</u>	<u>-</u>	<u>(78,052)</u>
Net capital assets	<u>\$ 270,270</u>	<u>(\$ 12,304)</u>	<u>\$ -</u>	<u>\$ 257,966</u>

NOTE E - BUILDING LEASE

Portage Lake District Library entered into a lease and management agreement with the City of Houghton for a period of thirty years. The Library shall operate, maintain, and repair the building. As rent, the Library shall pay the City such amount that the Library receives as property tax revenue (up to 2 mills) that would have been captured from the properties located within the City of Houghton's M-26 and Sharon Avenue Corridor Tax Increment Finance Authority (TIFA), excluding any non-captured tax revenue normally. The amount paid to the City of Houghton for the year ended June 30, 2008 was \$50,129.87.

NOTE F - DEFERRED COMPENSATION PLAN

The Library does not have a deferred compensation plan.

NOTE G - PENSION PLAN

The Library does not have a pension plan.

NOTE H - RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

PORTAGE LAKE DISTRICT LIBRARY

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<u>REVENUES</u>				
Property taxes	\$ 430,089	\$ 430,089	\$ 430,824	\$ 735
State aid	2,000	2,000	7,887	5,887
Charges for services	27,550	27,550	32,268	4,718
Penal fines	18,000	18,000	21,315	3,315
Interest	2,500	2,500	6,995	4,495
Contributions	25,500	25,500	46,037	20,537
Miscellaneous	<u>500</u>	<u>500</u>	<u>2,903</u>	<u>2,403</u>
TOTAL REVENUES	<u>\$ 506,139</u>	<u>\$ 506,139</u>	<u>\$ 548,229</u>	<u>\$ 42,090</u>
<u>EXPENDITURES</u>				
Culture - Library	\$ 471,787	\$ 475,787	\$ 457,577	\$ 18,210
Capital outlay	<u>25,000</u>	<u>25,000</u>	<u>9,750</u>	<u>15,250</u>
TOTAL EXPENDITURES	<u>\$ 496,787</u>	<u>\$ 500,787</u>	<u>\$ 467,327</u>	<u>\$ 33,460</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 9,352</u>	<u>\$ 5,352</u>	<u>\$ 80,902</u>	<u>\$ 75,550</u>
Fund balance, July 1	<u>\$ 274,318</u>	<u>\$ 274,318</u>	<u>\$ 274,318</u>	<u>\$ -</u>
Fund balance, June 30	<u><u>\$ 283,670</u></u>	<u><u>\$ 279,670</u></u>	<u><u>\$ 355,220</u></u>	<u><u>\$ 75,550</u></u>

JOSEPH M. DAAVETILA
CERTIFIED PUBLIC ACCOUNTANT
417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931

December 19, 2008

To The Library Board
Portage Lake District Library
Houghton, Michigan

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Portage Lake District Library as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Portage Lake District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Portage Lake District Library's internal control over financial reporting. According, we do not express an opinion on the effectiveness of the Portage Lake District Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Portage Lake District Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Portage Lake District Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Item 2008-1 to be significant deficiencies in internal control over financial reporting.

The Portage Lake District Library's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Portage Lake District Library's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Portage Lake District Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Portage Lake District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards** and which are described in the accompanying schedule of findings and questioned costs as item 2008-1.

We noted certain matters that we reported to management of the Portage Lake District Library in a separate letter dated December 19, 2008.

This report is intended for the information and use of the Library Board, management, and others within the organization and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph M. Daavetila, PC". The signature is written in a cursive, flowing style.

Certified Public Accountant

PORTAGE LAKE DISTRICT LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2008

2008-1 - PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Criteria

All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining, internal control over books and records), and reporting government-wide financial statements, including footnotes.

Condition

As is the case with many small entities, the Portage Lake District Library has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Portage Lake District Library's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause

Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Portage Lake District Library to perform this task internally.

Effect

As a result of this condition the Portage Lake District Library lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials

The Portage Lake District Library has evaluated the benefits of establishing internal control over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Portage Lake District Library to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

JOSEPH M. DAAVETILA
CERTIFIED PUBLIC ACCOUNTANT
417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931

December 19, 2008

To The Library Board
Portage Lake District Library
Houghton, Michigan

We have audited the financial statements of the Portage Lake District Library for the year ended June 30, 2008 and have issued our report thereon dated December 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Auditing Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Portage Lake District Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Portage Lake District Library's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Library Board and management of the Portage Lake District Library, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

JOSEPH M. DAAVETILA
CERTIFIED PUBLIC ACCOUNTANT
417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931

December 19, 2008

Board of Trustees
Portage Lake District Library
Houghton, Michigan

Management Letter

In connection with our audit of the financial statements of the Portage Lake District Library for the year ended June 30, 2008, the following comment and recommendation concerning accounting procedures and controls in effect in the Library are presented for your consideration.

We noted that the minutes of the Board of Trustees on file were not signed by the secretary. We recommend that the approved minutes of all board meetings be signed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the June 30, 2008 financial statements, and this report does not affect our report on financial statements dated December 19, 2008.

This report is intended solely for the use of management and should not be used for any other purpose. The comments contained herein are submitted as constructive suggestions to assist the Library in strengthening controls and procedures, and are not intended to reflect upon the honesty or the integrity of any employee.

We would be happy to discuss any of the comments in this report, and would like to thank the officials and employees of the Library for the courtesy and cooperation shown us during our audit.

Very truly yours,

Joseph M Daavetila, PC

Certified Public Accountant